

DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa

**Financial Statements and
Supplemental Data**

December 31, 2011

**DURANT MUNICIPAL ELECTRIC PLANT
Durant, Iowa**

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DURANT MUNICIPAL ELECTRIC PLANT
Durant, Iowa
Officials

BOARD OF TRUSTEES

NAME	TITLE	TERM EXPIRES
Harlen Bland	Chairman	December 31, 2013
Brad Mumm	Board Member	December 31, 2015
Dave Krohn	Board Member	December 31, 2017

OFFICIALS

NAME	TITLE
Tamara R. Allison	General Manager
Joel Meincke	Superintendent

Randy L. Linn, CPA
David A. Schebler, CPA
Randall B. Sovey, CPA

HUCKFELDT & SMITH

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL LIABILITY COMPANY

INDEPENDENT AUDITOR'S REPORT

Durant Municipal Electric Plant
Durant, Iowa

We have audited the accompanying statement of net assets of the Durant Municipal Electric Plant as of December 31, 2011, and the related statements of revenue, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Durant Municipal Electric Plant's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Durant Municipal Electric Plant, as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 8, 2012, on our consideration of Durant Municipal Electric Plant's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our

inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Durant Municipal Electric Plant's basic financial statements. Schedules A-1 through B-1 listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

HUCKFELDT & SMITH, P.L.C.
July 8, 2012

**DURANT MUNICIPAL ELECTRIC PLANT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Durant Municipal Electric Plant provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2011. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

This Discussion and Analysis is intended to serve as an introduction to the basic financial statements.

FINANCIAL HIGHLIGHTS

- The Utility's operating revenues increased 3.2%, or \$54,614 from 2010 to 2011.
- The Utility's non-payroll generating costs were 4.1%, or \$44,148, lower in 2011 than in 2010.
- The Utility's payroll costs were 8.6%, or \$30,671 higher in 2011 than in 2010.
- The Utility's net assets decreased 1.4%, or \$40,132 from 2010 to 2011.
- The Utility's operating expenses increased 5.2%, or \$83,874 from 2010 to 2011.
- The Utility's depreciation expense increased 42.2%, or \$70,851 from 2010 to 2011.
- The Utility's interest expense increased 95.3%, or \$10,818 from 2010 to 2011.

USING THIS ANNUAL REPORT

The Durant Municipal Electric Plant is an Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting, which is the same measurement focus and basis of accounting employed by private sector business enterprises. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities

The Statement of Net Assets presents information on the Utility's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for enterprise funds. This statement presents information on the Utility's operating revenues and expenses, non-operating revenues and expenses and whether the Utility's financial position has improved or deteriorated as a result of the year's activities.

DURANT MUNICIPAL ELECTRIC PLANT

Management's Discussion and Analysis

December 31, 2011

The Statement of Cash Flows presents the change in the Utility's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Utility financed its activities and how it met its cash requirements.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Supplementary Information provides detailed information about the Utility's financial position.

FINANCIAL ANALYSIS OF THE UTILITY

As noted earlier, net assets may serve over time as a useful indicator of the Utility's financial position. The Utility's net assets at December 31, 2011 totaled \$2,796,347. This compares to \$2,836,422 at December 31, 2010. A summary of the Utility's net assets is presented below.

Net Assets		
	December 31,	
	2011	2010
Current Assets	766,334	\$ 1,575,855
Restricted Cash and Investments	639,157	639,534
Capital Assets at Cost, Less Accumulated Depreciation	2,201,529	2,168,340
Total Assets	3,607,020	4,383,729
Current Liabilities	210,399	890,599
Noncurrent Liabilities	600,274	656,708
Total Liabilities	810,673	1,547,307
Net Assets:		
Invested in Capital Assets, Net of Related Debt	1,556,808	1,468,340
Unrestricted	1,239,482	1,368,082
Total Net Assets	2,796,290	\$ 2,836,422

The net assets invested in capital assets e.g., land, buildings and equipment, less the related debt portion of net assets which are resources allocated to capital assets, is 56% of net assets. The remaining net assets, 44%, are the unrestricted net assets that can be used to meet the Utility's obligations as they come due.

DURANT MUNICIPAL ELECTRIC PLANT

Management's Discussion and Analysis

December 31, 2011

Changes in Net Assets		
	Year Ended December 31	
	2011	2010
Operating Income	1,785,142	1,730,528
Operating Expenses	<u>(1,597,852)</u>	<u>(1,513,978)</u>
Operating Profit	187,290	216,550
Other Income	37,061	63,818
Other Expenses	<u>(264,426)</u>	<u>(188,002)</u>
Net Change in Assets	<u><u>(40,075)</u></u>	<u><u>92,366</u></u>

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a negative year with an decrease in the net assets at the end of the fiscal year.

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes electric generation & distribution fees reduced by payments to employees and to suppliers. Cash used from capital and related financing activities includes lease payments and the purchase of capital assets. Cash used by investing activities includes purchase of certificates of deposit and interest income.

CAPITAL ASSETS

The Utility's capital assets include land, buildings, vehicles, machinery and equipment, tools and distribution system. Capital assets totaled \$2,201,529 (net of accumulated depreciation) at December 31, 2011. Additional information of the Electric Utility's assets can be found in Schedule A-3 in this report.

DURANT MUNICIPAL ELECTRIC PLANT

Management's Discussion and Analysis

December 31, 2011

LONG TERM DEBT

At December 31, 2011, the Utility had \$644,721 in debt outstanding, a decrease of \$55,279 from 2010. The table below summarizes outstanding debt by type:

	December 31,	
	2011	2010
Bonds Payable - See Note 9	\$ 644,721	\$ 700,000

ECONOMIC FACTORS

The Durant Municipal Electric Plant maintained its financial position during the current year. However, the current condition of the economy in the state continues to be a concern for Utility officials. Some of the realities that may potentially become challenges for the Utility to meet are:

- ❑ Facilities require constant maintenance and upkeep. The Utility is currently updating its generating facilities.
- ❑ Technology continues to expand and current technology becomes outdated presenting an ongoing challenge to maintain up to date technology at a reasonable cost.

The Utility anticipates the current year will be much like the last and will maintain a close watch over resources to maintain the Utility's ability to react to unknown issues.

CONTACTING THE UTILITY'S MANAGEMENT

This financial report is designed to provide our constituents with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional information, contact Durant Municipal Electric Plant, 601 4th Street, Durant, Iowa 52747

DURANT MUNICIPAL ELECTRIC PLANT
FINANCIAL STATEMENTS

DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa
Statement of Net Assets
December 31, 2011

EXHIBIT A**ASSETS**2011**CURRENT ASSETS:**

Cash on Hand	\$ 200
Cash in Bank - General Fund	280,379
Money Market	129,304
Deposit with Iowa Public Agency Investment Trust	58
Customer Accounts Receivable	165,649
Accrued Interest Receivable	3,868
Material & Supplies Inventory - Note 1	169,479
Fuel Inventory - Note 1	17,397
Total	<u>766,334</u>

INVESTMENTS AND FUND ACCOUNTS:

Certificates of Deposit-Schedule A-2 Note 5	605,000
Meter Deposit Fund - Investments - Note 5	6,283
Meter Deposit Fund - Checking	22,354
Prepaid Bonding Costs	5,503
Money Market-Bond Sinking Fund	17
Total	<u>639,157</u>

ELECTRIC PLANT: - Note 1

Intangible Plant	175,621
Production Plant	2,475,799
Transmission Plant	151,967
Distribution Plant	688,379
General Plant	462,015
Radiator	135,829
Substation	1,003,606
Total	<u>5,093,216</u>
Less: Accumulated Provision for Depreciation	<u>(2,891,687)</u>
Total - Schedule A-3	<u>2,201,529</u>

TOTAL ASSETS\$ 3,607,020

See Notes to Financial Statements.

EXHIBIT A**DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa
Statement of Net Assets
December 31, 2011

LIABILITIES AND NET ASSETS

	<u>2011</u>
CURRENT LIABILITIES:	
Accounts Payable	\$ 78,722
Sales and Use Tax Payable	6,053
Customer Meter Deposits	25,996
Accrued Interest on Meter Deposits	2,885
Accrued Payroll	4,769
Accrued Vacation and Sick Pay - Note 8	28,527
Prepaid Rent	560
Accrued Interest on Bonds	1,288
Current Portion of Long Term Debt	61,599
Total	<u>210,399</u>
NON-CURRENT LIABILITIES:	
Other Post Employment Benefits	17,152
Long Term Debt - Net of Current Portion Above	583,122
Total	<u>600,274</u>
TOTAL LIABILITIES	<u>810,673</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	1,556,808
Unrestricted	1,239,539
TOTAL NET ASSETS	<u>2,796,347</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,607,020</u>

See Notes to Financial Statements.

EXHIBIT B**DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa

Statement of Revenue, Expenses and Changes in Net Assets with Comparison to Budget
For the Year Ended December 31, 2011

	Actual 2011	Budget 2011
OPERATING INCOME:		
Residential Sales	\$ 900,905	\$ 1,060,180
Commercial and Industrial	168,217	182,710
Power	657,086	766,700
Municipal	57,607	67,650
Security Lite	1,327	2,233
Total	<u>1,785,142</u>	<u>2,079,473</u>
OPERATING EXPENSES:		
Production Expense	1,091,546	1,221,060
Distribution Expense	200,314	445,533
Customer Accounts Expense	157,246	130,408
Administrative Expense	148,746	193,280
Total	<u>1,597,852</u>	<u>1,990,281</u>
OPERATING PROFIT	<u>187,290</u>	<u>89,192</u>
NON-OPERATING INCOME:		
Interest from Investments	9,295	10,000
Penalties	1,963	2,000
Patronage Dividends	14,003	18,400
Other	4,592	79,968
Pole Rental	7,208	6,700
Total	<u>37,061</u>	<u>117,068</u>
NON-OPERATING EXPENSES:		
Depreciation	238,811	60,000
Interest Expense	22,164	84,000
Bad Debts	876	1,000
Miscellaneous	2,575	61,260
Total	<u>264,426</u>	<u>206,260</u>
CHANGE IN NET ASSETS	<u>(40,075)</u>	<u>0</u>
NET ASSETS DECEMBER 31, 2010	<u>2,836,422</u>	
NET ASSETS December 31, 2011	<u>\$ 2,796,347</u>	

See Notes to Financial Statements.

EXHIBIT C

DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa

Statement of Cash Flows

For the Year Ended December 31, 2011

	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from Customers for Electrical Service	\$ 1,784,538
Cash Received for Other Charges and Misc Income	76,388
Cash Paid to Suppliers for Generation and Distribution Services	(1,193,546)
Cash Paid to Employees for Services	(274,988)
Cash Paid to Suppliers for Administrative and General Services	(137,816)
Cash Paid for Sales Taxes	<u>(51,791)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>202,785</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of Capital Assets	(948,874)
Interest Disbursed on Bonds	<u>(21,481)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(970,355)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest Collected	8,411
Principal Payment on Bonds	<u>(55,279)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(46,868)</u>
NET DECREASE IN CASH	(814,438)
CASH & EQUIVALENTS BALANCE AT BEGINNING OF YEAR	<u>1,246,733</u>
CASH & EQUIVALENTS BALANCE AT END OF YEAR	<u><u>\$ 432,295</u></u>
<u>Reconciliation of Net Change in Net Assets to Cash Provided by Operating Activities</u>	
Net Operating Profit	\$ 187,290
Adjustments to Reconcile Net Change in Net Assets to Net Cash Provided by Operating Activities	
Patronage Dividends	14,003
Other Income	13,763
Other Deductions	(2,575)
Increase in Non-Cash Current Assets	(5,080)
Decrease in Current Liabilities	(4,616)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 202,785</u></u>

See Notes to Financial Statements.

DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa

Notes to Financial Statements

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Measurement Focus and Basis of Accounting:

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows.

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing business. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Durant Municipal Electric Plant applies all GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedures. In addition, Durant Municipal Electric Plant may also apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

Reporting Entity:

For financial reporting purposes, Durant Municipal Electric Plant has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Municipal Electric Plant has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship are such that exclusion would cause the financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Durant Municipal Electric Plant. The Durant Municipal Electric Plant has no component units which meet the Governmental Accounting Standards Board criteria.

DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa

Notes to Financial Statements

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Fund Accounting:

The accounts of Durant Municipal Electric Plant are organized as an enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Measurement Focus:

Enterprise funds are accounted for on a cost of services or “capital maintenance” measurement focus. This means that all assets and all liabilities, whether current or non-current, associated with their activity are included on the balance sheet. The operating statement presents increases (revenue) and decreases (expenses) in net assets.

In reporting the financial activity of its enterprise fund, the Durant Municipal Electric Plant applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Budgets and Budgetary Accounting:

In accordance with the Code of Iowa, the utility annually adopts a budget on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Investments:

Investments consist of CD's and are valued at cost plus any interest earned that is added to the security. Investments are stated at cost.

Accounts Receivable:

Accounts receivable are recorded at the time the service is billed. Billing dates are typically near month end.

DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa

Notes to Financial Statements

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Inventories:

Inventories are valued at the lower of cost or market using the first-in, first-out method. Inventories consist of materials and supplies to be used in production and distribution construction and maintenance as well as oil to be used for generation. Inventories are expensed or capitalized when used.

Fixed Assets:

Electric Plant fixed assets were established from a survey report by Fulton & Cramer, Consulting Engineers, as of September 30, 1968. The basis of valuation was "Reproduction Cost Net of Depreciation". A copy of the Consulting Engineers' report contained detailed explanations of valuation and depreciation procedures, and is on file in the office of the Electric Plant. Fixed asset additions after September 30, 1968, are recorded at historical cost.

Depreciation:

Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred. Major renewals and betterments are capitalized.

Assets, Liabilities and Net Assets:

The following accounting policies are followed in preparing the Statement of Net Assets:

Net Assets – Net assets represent the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Cash, Investments and Cash Equivalents – The Durant Municipal Electric Plant considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa

Notes to Financial Statements

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Capital Assets – Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by the Durant Municipal Electric Plant as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Buildings and improvements	\$ 10,000
Equipment and vehicles	2,500

Capital assets of the Durant Municipal Electric Plant are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful lives (In Years)
Buildings	40-50
Building improvements	20-50
Equipment and vehicles	02-20

Compensated Absences – Durant Municipal Electric Plant employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. Durant Municipal Electric Plant's liability for accumulated vacation has been computed based on rates of pay in effect at December 31, 2011.

DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa

Notes to Financial Statements

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Accounting Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – ORGANIZATION:

Durant Municipal Electric Plant is organized as a municipal utility. It is operated under the control of a Board of Trustees, who are appointed by the Mayor and approved by the City Council. The Board has three members who serve six-year terms on a two year staggered basis.

Note 3 - CASH FLOWS DISCLOSURE:

Included in the Financial Statements for 2011 is \$8,411 of interest received.

The Utility disbursed \$21,481 in interest during 2011

Cash and Cash Equivalents consist of Cash on Hand; Cash in Bank - General Fund, Money Market, and Meter Deposit Fund-Checking.

Cash Balances consist of the following:

Cash on Hand	\$	200
Cash in Bank-General Fund		280,379
Money Market		129,304
Deposit with Public Agency Trust		58
Meter Deposit Fund-Checking		22,354
	\$	<u>432,295</u>

DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa

Notes to Financial Statements

Note 4 - CONCENTRATION OF CREDIT RISK:

Durant Municipal Electric Plant provides commercial and residential electric services to customers in Durant, Iowa. Receivables are from customers with locations in Durant, Iowa and collection of these receivables is dependent on the performance of the local economy.

Note 5 - BANK ACCOUNTS AND INVESTMENTS:

The Durant Municipal Electric Plant's bank accounts and investments at December 31, 2011 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Municipal Electric Plant is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants and improvement certificates of a drainage district.

The Durant Municipal Electric Plant had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3 as amended by Statement No. 40.

The Municipal Electric Plant's investments at December 31, 2011 consists of Certificates of Deposit at Liberty Trust and Savings Bank, and one Money Market account at Liberty Trust and Savings Bank as follows:

	<u>Carrying Value</u>
Certificates of Deposit	\$ 605,000
Meter Deposit Fund	<u>6,283</u>
Total CD's	611,283
Money Market Accounts	<u>17</u>
Total	<u><u>\$ 611,300</u></u>

Book value and market value are the same.

DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa

Notes to Financial Statements

Note 6 - PENSION AND RETIREMENT BENEFITS:

The Municipal Electric Plant is a participating employer in the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit retirement system administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 9.4% of their annual salary and the Utility is required to contribute 17%. Contribution requirements are established by State statute. The Durant Municipal Electric Plant's contribution to IPERS for the year ended December 31, 2011 was \$20,654, equal to the required contributions for the year.

Note 7 -RISK MANAGEMENT:

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Utility assumes liability for any deductibles and claims in excess of coverage limits.

Note 8 - COMPENSATED ABSENCES:

Utility employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are recognized as liabilities and expensed as accrued. The approximate liability for earned compensated absences payable to employees at December 31, 2011, is as follows:

<u>TYPE OF BENEFIT</u>	<u>AMOUNT</u>
Vacation	\$ 11,042
Sick leave	17,485
TOTAL	<u><u>\$ 28,527</u></u>

This liability has been computed based on rates of pay in effect at December 31, 2011.

DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa

Notes to Financial Statements

Note 9 - LONG TERM DEBT:

On October 11, 1996, the Utility issued \$1,200,000 in bonds dated October 1, 1996, to perform repairs and upgrades to existing facilities. The bonds were issued at 98.5% of par and had an average coupon rate of 5.4578% and were due ratably over the next 15 years. This bonding was paid off during 2010.

On December 22, 2010 the Utility entered into an agreement with Liberty Trust and Savings Bank to borrow \$700,000. The loan is executed pursuant to Section 384.24A of the Code of Iowa. The note bears interest at 3.5% and is payable in monthly installments of \$6,922.01. The loan matures on December 10, 2020.

Annual debt service requirements are as follows:

<u>Year</u> <u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
12-31-12	61,599	21,465	83,064
12-31-13	63,852	19,212	83,064
12-31-14	66,123	16,941	83,064
12-31-15	68,474	14,590	83,064
12-31-16	70,874	12,190	83,064
12-31-17	73,430	9,634	83,064
12-31-18	76,042	7,022	83,064
12-31-19	78,747	4,317	83,064
12-31-20	85,580	5,876	91,456
TOTAL	<u>\$ 644,721</u>	<u>\$ 111,247</u>	<u>\$ 755,968</u>

The loan will only be redeemed from the future earnings of the enterprise activity and the loan is not a general obligation of the city and will not be payable by taxation.

DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa

Notes to Financial Statements

Note 10 – CAPITAL ASSETS:

A summary of capital assets at December 31, 2011 is as follows:

	Balance Beg. of Year	Increase	Decrease	Balance End of Year
Capital Assets Not Being Depreciated	\$ 46,040	\$ 0	\$ 0	\$ 46,040
Capital Assets Being Depreciated	4,814,228	272,000	(39,052)	5,047,176
Total Capital Assets	4,860,268	272,000	(39,052)	5,093,216
Less: Accumulated Depreciation	(2,691,928)	(238,811)	39,052	(2,891,687)
Total Capital Assets, Net	<u>\$ 2,168,340</u>	<u>\$ 33,189</u>	<u>\$ 0</u>	<u>\$ 2,201,529</u>

Note 11 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

The Utility operates a Single-Employer Benefit Plan which provides medical benefits for employees and their spouses. The benefits are provided through a fully insured plan. Retirees and other separated employees are allowed to stay on the plan for the remainder of the month after separation from service. After this time employees can remain on the plan by paying 100% of their premium for the time allowed by COBRA. Benefits are currently funded on a pay as you go basis.

DURANT MUNICIPAL ELECTRIC PLANT

**Supplemental Data
December 31, 2011**

DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa

Schedule of Indebtedness

Year Ended December 31, 2011

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due & Unpaid</u>
Electric	12/22/11	3.50%	\$ 700,000	700,000	0	55,279	\$ 644,721	21,481	\$ 1,288
Totals			\$ 700,000	700,000	0	\$ 55,279	\$ 644,721	\$ 21,481	\$ 1,288

DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa
Schedule of Investments
December 31, 2011

SCHEDULE A-2**LIBERTY TRUST AND SAVINGS BANK:**

<u>Certificates of Deposit</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
# 94279	06/28/12	1.00	\$ 150,000
# 95254	03/13/12	1.10	50,000
# 95816	04/22/12	0.80	100,000
# 96007	01/28/12	1.10	25,000
# 96108	03/16/12	1.10	70,000
# 96167	04/22/12	1.10	30,000
# 96436	02/20/12	1.00	100,000
# 96444	02/28/12	1.00	<u>80,000</u>
			<u>\$ 605,000</u>

DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa

Schedule of Electric Plant Fixed Assets

	<u>Cost</u>	<u>Accumulated Depreciation 12/31/10</u>	<u>Depreciation Expense 2011</u>	<u>Disposition 2011</u>	<u>Accumulated Depreciation 12/31/11</u>
INTANGIBLE PLANT:					
Organization Expense	\$ 5,000	\$ 0	\$ 0	0	\$ 0
Construction Cost	170,621	170,621	0	0	170,621
Total	<u>175,621</u>	<u>170,621</u>	<u>0</u>	<u>0</u>	<u>170,621</u>
PRODUCTION PLANT:					
Land & Land Rights	32,050	0	0	0	0
Power House & Bldg Improvements	347,570	202,151	13,016	0	215,167
Fuel & Lube Oil System	19,603	19,603	0	0	19,603
Accessory Electric Equipment	61,500	61,500	0	0	61,500
Miscellaneous Plant Equipment	23,522	8,490	635	853	8,272
Generators & Plant Equipment	1,991,554	491,421	119,060	0	610,481
Total	<u>2,475,799</u>	<u>783,165</u>	<u>132,711</u>	<u>853</u>	<u>915,023</u>
TRANSMISSION PLANT:					
Clearing Land & Right of Way	500	500	0	0	500
Station Equipment (Transformer)	146,021	146,021	0	0	146,021
Poles & Fixtures	2,349	2,349	0	0	2,349
Overhead Conductors & Devices	3,097	3,097	0	0	3,097
Total	<u>151,967</u>	<u>151,967</u>	<u>0</u>	<u>0</u>	<u>151,967</u>
DISTRIBUTION PLANT:					
Station Equipment (Capacitors & Battery)	183,841	66,529	4,265	6,667	64,127
Poles, Towers & Fixtures	122,390	55,253	3,052	5,831	52,474
Overhead Conductors & Devices	96,691	56,738	1,838	5,858	52,718
Underground Conduit & Conductors	104,011	51,531	1,868	5,590	47,809
Line Transformers	119,090	82,815	7,770	8,853	81,732
Services	13,265	14,773	35	1,544	13,264
Meters	28,634	29,072	530	2,960	26,642
Street Lighting & Signals	8,053	8,880	53	893	8,040
Furnace	12,404	8,380	0	0	8,380
Total	<u>688,379</u>	<u>373,971</u>	<u>19,411</u>	<u>38,196</u>	<u>355,186</u>

DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa

Schedule of Electric Plant Fixed Assets December 31, 2011

	<u>Cost</u>	<u>Accumulated Depreciation 12/31/10</u>	<u>Depreciation Expense 2011</u>	<u>Disposition 2011</u>	<u>Accumulated Depreciation 12/31/11</u>
GENERAL PLANT:					
Office Furniture & Fixtures	\$ 101,614	\$ 72,310	\$ 6,093	\$ 0	\$ 78,403
Transportation Equipment	304,376	236,583	34,807	0	271,390
Stores Equipment	7,047	3,102	1,315	0	4,417
Shop Equipment	23,371	23,025	345	0	23,370
Laboratory Equipment	3,875	3,875	0	0	3,875
Tools & Work Equipment	21,732	17,352	448	0	17,800
Total	462,015	356,247	43,008	0	399,255
RADIATOR:					
Radiator	117,500	112,857	3,525	0	116,382
Studies	18,329	17,564	553	0	18,117
Total	135,829	130,421	4,078	0	134,499
SUBSTATION:					
Land & Land Clearing	8,990	0	0	0	0
Engineering & Legal	28,822	28,822	0	0	28,822
Aerial Lines	5,111	5,111	0	0	5,111
Outdoor Substation	727,541	536,538	32,505	0	569,043
Reclosure	120,482	42,402	7,098	0	49,500
Transformer	103,016	103,016	0	0	103,016
Feasibility Studies	9,644	9,644	0	0	9,644
Total	1,003,606	725,533	39,603	0	765,136
TOTALS	\$ 5,093,216	\$ 2,691,925	\$ 238,811	\$ 39,049	\$ 2,891,687

DURANT MUNICIPAL ELECTRIC PLANT
Durant, Iowa
Schedule of Cash Balances
December 31, 2011

SCHEDULE A-4

Cash on Hand	\$	200
Cash in Bank - General Fund		280,379
Money Market		129,304
Meter Deposit - Checking		<u>22,354</u>
Total	\$	<u><u>432,237</u></u>

SCHEDULE A-5

DURANT MUNICIPAL ELECTRIC PLANT

Schedule of Cash Balance Composition

December 31, 2011

	<u>Demand Deposits</u>	<u>Time Deposits & Investments</u>	<u>Total</u>	<u>Maximum Authorized Deposit</u>
<u>Depository</u>				
<u>Liberty Trust & Savings</u>				
<u>Durant, Iowa:</u>				
General	\$ 409,683	\$ 605,000	\$ 1,014,683	
Capital Improvements	17		17	
Customer Deposits	<u>22,354</u>	<u>6,283</u>	<u>28,637</u>	
Total	<u>\$ 432,054</u>	<u>\$ 611,283</u>	<u>\$ 1,043,337</u>	<u>\$ 2,000,000</u>

SCHEDULE A-6

DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa
Schedule of Maturities
December 31, 2011

<u>Year Ended</u> <u>December 31</u>	<u>Issue Date 12-22-10</u>	
	<u>Interest Rate</u>	<u>Amount</u>
2012	3.5 %	\$ 61,599
2013	3.5	63,852
2014	3.5	66,123
2015	3.5	68,474
2016	3.5	70,874
2017	3.5	73,430
2018	3.5	76,042
2019	3.5	78,747
2020	3.5	85,580
TOTAL		<u><u>\$ 644,721</u></u>

SCHEDULE B-1**DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa

Detail Schedule of Operating Expenses and Comparison to Budget
For the Year Ended December 31, 2011

	<u>2011</u>	<u>Budget</u>
PRODUCTION EXPENSES:		
Labor	\$ 110,495	\$ 103,760
Fuel	2,702	30,000
Lubrication	0	800
Maintenance	20,564	44,300
Purchased Power	939,950	1,009,400
Insurance	12,995	13,500
Tools	1,130	16,000
Safety Expenses	3,710	3,300
Total	<u>1,091,546</u>	<u>1,221,060</u>
DISTRIBUTION EXPENSES:		
Supervision & Labor	142,384	161,833
Stock	17,883	47,400
Maintenance	17,895	212,800
Truck & Transportation	9,157	10,000
Insurance	12,995	13,500
Total	<u>200,314</u>	<u>445,533</u>
CUSTOMER ACCOUNTS EXPENSES:		
Meter Reading Labor	19,110	20,957
Office Salaries	71,102	73,451
Miscellaneous Supplies	31,337	13,300
Energy Efficient	10,910	15,000
Insurance	6,497	6,700
Metering	18,290	1,000
Total	<u>157,246</u>	<u>130,408</u>
ADMINISTRATIVE EXPENSES:		
Salaries & Wages	60,413	58,958
Trustee Fees	780	900
Community Service	3,563	1,000
Professional Services	31,095	36,000
Dues, Subscriptions & Meetings	6,323	8,000
Telephone	7,748	8,652
Engineering	36,847	76,100
Publications	1,277	1,470
Miscellaneous	700	2,200
Total	<u>148,746</u>	<u>193,280</u>
TOTAL OPERATING EXPENSES	<u>\$ 1,597,852</u>	<u>\$ 1,990,281</u>

**Independent Auditor's Report on
Internal Control over Financial Reporting and on
Compliance and Other Matters
Based on an Audit of Financial Statements
In Accordance With
Government Auditing Standards**

Randy L. Linn, CPA
David A. Schebler, CPA
Randall B. Sovey, CPA

HUCKFELDT & SMITH

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL LIABILITY COMPANY

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
Durant Municipal Electric Plant

We have audited the accompanying financial statements of the Durant Municipal Electric Plant, Durant, Iowa, as of and for the year ended December 31, 2011, and have issued our report thereon dated July 8th, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Durant Municipal Electric Plant's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Durant Municipal Electric Plant's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Durant Municipal Electric Plant's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Durant Municipal Electric Plant's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Durant Municipal Electric Plant's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Durant Municipal Electric Plant's operations for the year ended December 31, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Durant Municipal Electric Plant. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Durant Municipal Electric Plant's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Durant Municipal Electric Plant's responses, we did not audit Durant Municipal Electric Plant's responses and, accordingly we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Durant and other parties to whom the Durant Municipal Electric Plant may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Durant Municipal Electric Plant
Page Three

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Durant Municipal Electric Plant during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

HUCKFELDT & SMITH, P.L.C.

July 8, 2012

**Durant Municipal Electric Plant
Schedule of Findings and Questioned Costs
Year ended December 31, 2011**

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITION:

- A Segregation of Duties: - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits, the posting of the cash receipts to the cash receipts journal, accounts payable, payroll and disbursements processing and postings are all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Durant Municipal Electric Plant should continually review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – Segregation of duties involving cash is partially unattainable due to the economic conditions under which the Municipal Electric Plant operates. However, we will continue to investigate available alternatives and implement the ones which are feasible for the Municipal Electric Plant. This is an area of ongoing concern for management and is continually monitored.

Conclusion – Response accepted.

**Durant Municipal Electric Plant
Schedule of Findings and Questioned Costs
Year ended December 31, 2011**

Part III: Other Findings Related to Statutory Requirements and Other Matters:

1. Certified Budget – For the year ended December 31, 2011 some of the line item expenditures exceeded budgeted amounts. However, total expenditures did not exceed the budgeted figure.
2. Entertainment Expense – We noted no disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. Travel Expense – No expenditures of Municipal Electric Plant money for travel expenses of spouses of Municipal Electric Plant officials and/or employees were noted. No travel advances to officials or employees were noted.
4. Related Party Business Transactions – No expenditures or money to any was noted.
5. Bond Coverage – Surety bond coverage of Municipal Electric Plant officials and employees is in accordance with statutory provisions. However, we recommend that the amount of coverage be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes – We noted no transactions requiring Board approval which had not been approved by the Board.
7. Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.